

# The beleaguered financial sector and looming challenges



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The money and financial markets build the bridge between the goods and services as well as the labor market. The financial sector is the crucial conduit for output and employment. This relationship is akin to how fuel energizes the engine to make the wheels rotate so the car can move. That is why any defect in the financial sector is enough to make other machinery of the economy dysfunctional.

## FINANCE AS THE ENGINE OF GROWTH

The health of the financial sector is the determinant of a country's journey to development, vindicating the success stories of Singapore, Vietnam, Taiwan, and South Korea. They all emerged from agricultural feudal society, and their current state of excellence is the secret story of how they handled the act of finance from day one of their journey. Bangladesh's success so far is attributable to how its financial industry developed. Its failures are also attributable to the practices of how politicians, businessmen, and bureaucrats corrupted the country's financial institutions.

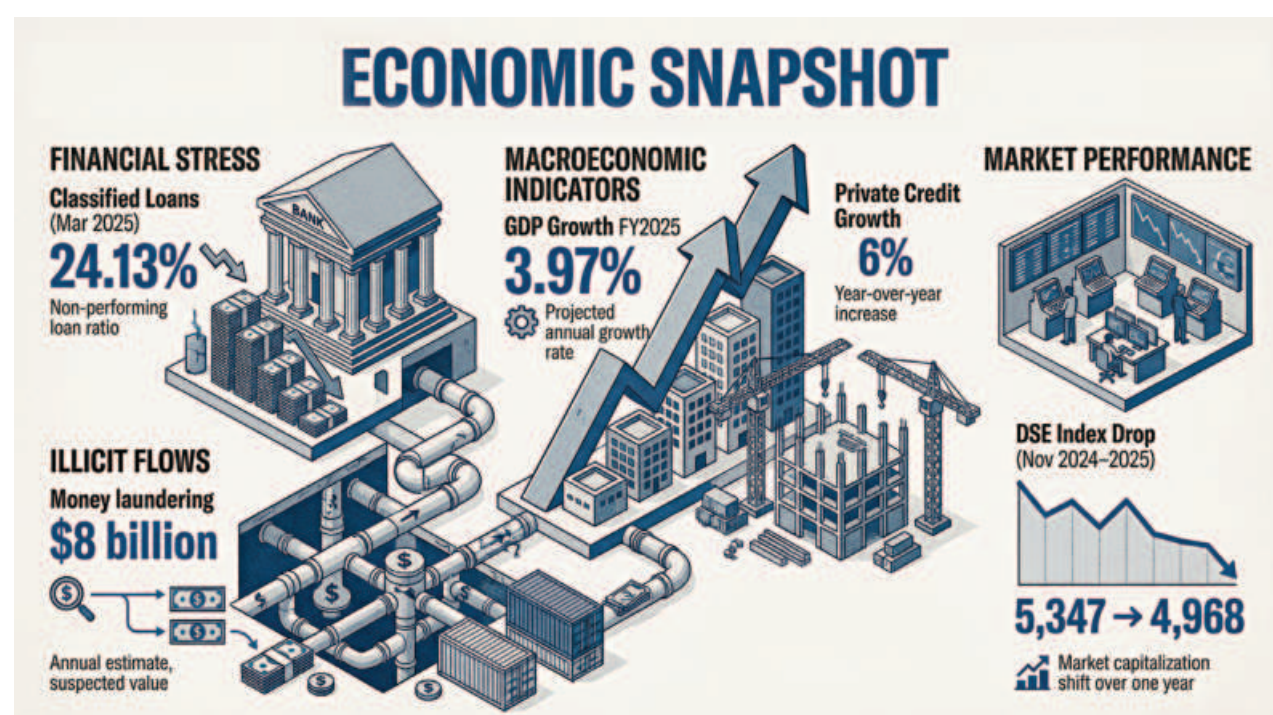
The decadence in the financial

sector began in the 1980s when the military ruler president Ershad wanted to create a group of bourgeoisie who will support his regime. The best way to make it happen is to allow some degree of default loans to facilitate their business operations and political ambitions. Since then both regimes of Awami League (AL) and Bangladesh Nationalist Party (BNP) continued that culture displaying an upward trend.

## HOW DEFAULT CULTURE TOOK ROOT

However, it turned into a growing epidemic during the AL regime particularly after 2015 until the day they were overthrown in August 2024. The party changed characteristically under the dominant influence of business tycoons who earned a secret license to loot the banking sector in exchange for their unequivocal support for AL's continuation of power. The interim government, though promised to revert the situation, got little success in the banking sector while the overall investment scenario has not emerged to vitality, making growth prospects weaker than before.

The capital market and the banking



sector are the two wings of an economy. For Bangladesh, both wings are bruised. The reasons are twofold: 1) negligence of the capital market and lack of punishing its wrongdoers 2) the defective practice of holding the banking sector responsible for long-term financing. While banks are here for supporting short-term funds such as working capital or operational cash flow for industries, they were forced to fund long-term capital, making the role of the capital market redundant and creating the mismatch of maturity in fund management. This fundamental defect is at the root of why Bangladesh debauched both the stock market and banks.

## WHEN BOTH WINGS OF THE ECONOMY FAILED

The toughest challenge is the act of reversing this practice and making it comparable to what we see in other

emerging nations. Bangladesh's financial sector is thus fundamentally flawed, and correcting this for good requires both knowledge and political intent. If politics is controlled by tycoons who are also engaged in tax dodging and money laundering, the oligarchs would never like to correct the practice since looting banks is easier than raising funds from the stock market where companies are vividly accountable to the shareholders by law.

Apart from this characteristic perversion in the culture of borrowing, the problems of Bangladesh's financial sector are deep rooted mainly because of its courtship with politicians. When politicians chase businessmen for rent seeking, that is one kind of problem which creates extortive ambience. But the problem is worse when businessmen turn into politicians and

distort financial rules in their favour. This gambling ensures malfunctioning of the financial industry by launching perverse politics. The AL regime made the biggest blunder by empowering a group of businessmen who twisted financial law in their favour to normalize their plunder and laundering. Stock-market scammers and bank looters were made the guardians of the sector.

The July-August uprising of 2024 created a glimmer of hope, and we expected to see the end of the businessmen-led politics and bureaucratic tangles. A lot was spoken about financial reform while little might have been achieved without touching the main flaws of the financial world. The White Paper report was intended to get the future guidelines, and the Economic Task Force report was aimed at taking

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